MULTIMEDIA UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018 / 2019 SESSION

BFN3104 – CORPORATE FINANCIAL STRATEGIES

(All Sections / Groups)

2 March 2019

(9.00am-11.00am)
(2 hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of **4** pages with **4** questions.
2. Answer **ALL** questions and the distribution of the marks for each question is given.
3. Please write all your answers in the **Answer Book** provided.

Question 1

a. Explain two key objectives of corporate financial strategy. (5 marks)

b. Discuss the fundamental characteristics of corporate life cycle and its financial strategies related to financial risk, business risk funding, dividend, shareholders' return, EPS/PE Ratio and share price for each stage (show graphical illustrations).
(20 marks)

(Total: 25 marks)

Question 2

ABC group Bhd had reported a strong growth. An extract of the financial results for three of the companies in the ABC Group Bhd are shown below:

Selected financial data	Company A	Company B	Company C
Intellectual Asset (RM)	700,000	1,300,000	890,000
Total Assets (RM)	8,500,000	16,500,000	13,000,000
Operating profit (EBIT) (RM)	2,500,000	1,400,000	3,000,000
Selling and admin expenses (RM)	1,200,000	500,000	700,000
Earnings Before Interest, Tax Depreciation and Amortization (EBITDA) (RM)	1,500,000	1,400,000	2,000,000
Finance Charge (RM)	500,000	150,000	200,000
Tax (RM)	700,000	350,000	500,000
Cost of capital per annum	6%	7%	10%
Base Lending Rate	4.5%	4.5%	4.5%

a. Calculate the Return On Capital Employed (ROCE) for each company for 2018.
(6 marks)

b. Calculate the Economic Value Added (EVA) each company for 2018. (9 marks)

c. Which measure (ROCE or EVA) provides the best performance measure for each company. Justify your answer. (2 marks)

d. If each company is presented with an investment opportunity that is expected to yield a return of 9%.

i. Which company(s) would accept and which company(s) would reject the investment opportunity if their performance is measured by ROCE, and why?
(4 marks)

ii. Which company(s) would accept and which company(s) would reject the investment opportunity if their performance is measured by EVA, and why?
(4 marks)

(Total: 25 marks)

Continued ...

Question 3

You are a Senior Manager at Smart Metro. In order to increase shareholders value, the director of the company is planning to expand business to various countries.

a. What is corporate financial planning? (4 marks)

b. Explain uncertainty analysis and risk analysis. (4 marks)

c. Smart Metro has identified the following countries for business expansion:-

- Project A: Destination Senegal. Initial investment RM280 million. Expected cash flow of RM190 million at year 1 and RM170 million at year 2. The required rate of return is 10%.
- Project B: Destination Bosnia. Initial investment RM 390 million. Expected cash flow of RM 270 million at year 1 and RM 240 million at year 2. The required rate of return is 20%.
- Project C: Destination China. Initial investment RM 230 million. Expected cash flow of RM160 million at year 1 and RM 190 million at year 2. The required rate of return is 15%.

Note: Smart Metro Group corporate discount rate is 10%.

Which project should you advice? Explain your answer using NPV methodology.
(10 marks)

d. Smart Metro is considering a risky business expansion project. The director is in dilemma whether to continue or abandon the project. The following expected cash flows (in million) are provided for your review:

Time (t)	**0**	**1**	**2**	**3**	**4**	**5**	**6**
Cash flow (RM million)	−140	40	20	30	40	30	20
Abandonment (RM million)	n.a.	50	35	30	30	10	n.a.

Advice the director whether the project should be continued or abandoned.

Note: The cost of capital for this project is 10 percent.

(7 marks)

(Total: 25 marks)

Continued...

Question 4

Mergers and acquisitions (M&A) is a general term that refers to the consolidation of companies or assets through various types of financial transactions.

a. Explain four (4) valid motive/s of corporate merger. (8 marks)

b. Firm Colmar intends to acquire Firm Delta. The acquisition will cost Firm Colmar RM 150 million. Firm Colmar plans to install new management, "fix" the company, and sell it at the end of 5 years. The projected incremental after-tax cash flow stream that Firm Colmar expects to realize from the acquisition (which reflects the anticipated operating improvements) is for years 1 through 5 as follows: RM20 million, RM30 million, RM50 million, RM50 million, and RM50 million. In addition, the projected after-tax proceeds from selling Firm Delta at the end of 5 years amount to RM226 million.

i. Calculate the NPV of the acquisition, assuming a 12 percent cost of capital. (4 marks)

ii. Should Firm Colmar proceed with the acquisition? (3 marks)

c. A firm chooses to reorganize, the following future cash flows are expected:

Year	1	2	3	4	5
Cash Flow in RM Million	40	50	60	70	80

The appropriate discount rate is 12 percent. The liquidation value of the firm is RM270 million.

i. What is the reorganization value? (4 marks)

ii. Should the firm declare bankruptcy? (3 marks)

iii. What signs can indicate financial distress? (3 marks)

(Total: 25 marks)

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